



## DEPARTMENT OF THE TREASURY

Internal Revenue Service  
TE/GE EO Examinations

MC:4957:DAL  
1100 Commerce St.  
Dallas, TX 75242

501.03-00

**TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION**

Date: December 18, 2012

Number: **201350046**

Release Date: 12/13/2013

LEGEND

ORG - Organization name

XX - Date Address - address

ORG

ADDRESS

Form Number:

Tax Year Ended:

Taxpayer Identification Number:

Person to Contact:

Employee Identification Number:

Contact Telephone Number:

(Phone)

(Fax)

In Reply Refer to: TE/GE Review Staff

LAST DATE FOR FILING A PETITION  
WITH THE TAX COURT: March 18, 20XX

Dear :

This is a Final Adverse Determination Letter as to your exempt status under section 501(c)(3) of the Internal Revenue Code. Your exemption from Federal income tax under section 501(c)(3) of the code is hereby revoked effective January 1, 20XX.

Our adverse determination was made for the following reasons:

ORG does not operate exclusively for charitable purposes as noted in section 1.501(c)(3)-1(c)(1) of the regulations. This section provides an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3). ORG failed to meet the operational test described in Treasury Regulation Section 1.501(c)(3)-1(c)(1). ORG failed to keep records, specifically its items of gross income, receipts and disbursements, to show it is entitled to be recognized as exempt from federal income tax under Internal Revenue Code Section 501(c)(3).

Based upon these reasons, we are retroactively revoking your IRC §501(c)(3) tax exempt status effective for all years beginning on or after January 1, 20XX.

Contributions to your organization are no longer deductible under section 170 of the Internal Revenue Code.

You are required to file federal income tax returns on Form 1120, U.S. Corporation Income Tax Return, for the years ended December 31, 20XX and for all years thereafter with the appropriate Service Center immediately and by the due date of Form 1120 for all subsequent years.

Processing of income tax returns and assessment of any taxes due will not be delayed should a petition for declaratory judgment be filed under section 7428 of the Internal Revenue Code.

If you decide to contest this determination in court, you must initiate a suit for declaratory judgment in the United States Tax Court, the United States Claim Court or the District Court of the United States for the District of Columbia before the 91<sup>st</sup> day after the date this determination was mailed to you. Contact the clerk of the appropriate court for the rules for initiating suits for declaratory judgment.

You also have the right to contact the office of the Taxpayer Advocate. However, you should first contact the person whose name and telephone number are shown above since this person can access your tax information and can help you get answers.

You can call 1-877-777-4778 and ask for Taxpayer Advocate assistance or you can contact the Taxpayer Advocate from the site where the tax deficiency was determined by calling (214) 413-6500 or writing to:

Taxpayer Advocate assistance cannot be used as a substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determinations, nor extend the time fixed by law that you have to file a petition in the United States Tax Court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling.

We will notify the appropriate state officials of this action, as required by IRC §6104(c).

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

Nanette M. Downing  
Director, EO Examinations

Attachment:  
Form 886-A  
Publication 892

**Internal Revenue Service**

**Department of the Treasury**

**Internal Revenue Service**

TE/GE Exemption Organizations Examination  
1100 Commerce Street, MC 4980 DAL  
Dallas, TX 75242

**Taxpayer Identification Number:**

**Form:**

**Tax Year(s) Ended:**

**Person to Contact/ID Number:**

**Contact Numbers:**

**Telephone:**

**Fax:**

**Certified Mail - Return Receipt Requested**

Dear :

We propose to revoke our recognition of your exempt status as an organization described in section 501(c)(3) of the Internal Revenue Code (the Code). We enclose our report of examination explaining why we are proposing this action.

If you accept our proposal, please sign and return the enclosed Form 6018, *Consent to Proposed Action - Section 7428*, unless you have already provided us a signed Form 6018. We will issue a final revocation letter determining you are not an organization described in section 501(c)(3). After the issuance of the final revocation letter we will publish an announcement that you have been deleted from the cumulative list of organizations contributions to which are deductible under section 170 of the Code.

If you do not respond to this proposal, we will similarly issue a final revocation letter. Failing to respond to this proposal may adversely impact your legal standing to seek a declaratory judgment because you may be deemed to have failed to exhaust administrative remedies.

If you do not agree with our proposed revocation and wish to protest our proposed revocation to the Appeals Office of the Internal Revenue Service, then you must submit to us a written request for Appeals Office consideration within 30 days from the date of this letter to protest our decision. This written request is called a protest. For your protest to be valid it needs to contain certain specific information which generally includes a statement of the facts, the applicable law, and arguments in support of your position. For the specific information needed for a valid protest, please refer to page 6 of the enclosed Publication 3498, *The Examination Process*, and page 1 of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*. If you do submit a valid protest, then an Appeals officer will review your case. The Appeals Office is independent of the Director, EO Examinations. The Appeals Office resolves most disputes informally and promptly. The enclosed Publication 3498 and Publication 892 explain how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast

Track Mediation Services referred to in Publication 3498, generally do not apply after issuance of this letter. You may also request that we refer this matter for Technical Advice as explained in Publication 892 and an annual revenue procedure. Please contact the individual identified on the first page of this letter if you are considering requesting Technical Advice. If we issue a determination letter to you based on a Technical Advice Memorandum issued by the EO Rulings and Agreements function, then no further administrative appeal will be available to you within the IRS on the matter.

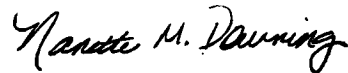
If you receive a final revocation letter, you will be required to file Federal income tax returns for the tax period(s) shown above as well as for subsequent years.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free, 1-877-777-4778, and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,



Nanette M. Downing  
Director, EO Examinations

Enclosures:

Publication 892  
Publication 3498  
Report of Examination

Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATIONS OF ITEMS</b>		Schedule number or exhibit
Name of taxpayer <b>ORG</b>	Tax Identification Number <b>EIN</b>		Year/Period ended <b>20XX12</b>

**LEGEND**

ORG - Organization name      EIN - ein      XX - Date      State - state      Island -  
island      motto - motto      Country - country      POA - poa      Treasurer - treasurer  
Secretary - secretary      RA-1 through RA-5 - 1<sup>st</sup> through 5<sup>th</sup> RA      CO-1 THROUGH CO-14  
- 1<sup>ST</sup> THROUGH 14<sup>TH</sup> COMPANIES

**ISSUE:**

Whether ORG (ORG) qualifies for exemption under Section 501(c)(3) of the Internal Revenue Code?

**FACTS:**

**Form 1023 package:**

The Form 1023 package included the Form 1023 *Application for Recognition of Exemption*, Articles of Incorporation, and two grant proposals.

The Articles of Incorporation of the Foundation was stamped by Commonwealth of the State (STATE) on March 8, 20XX. The Articles of Incorporation provided the purpose of the Foundation is to carry out research in Motto for the benefit of the STATE and its community including: (A) Finding & Budget; (B) Organization & Responsibilities; (C) Policy & Law; (D) Continuing Education & Certification; (E) Training & Credentials.

There were two grant proposals in the Form 1023 package. One was sent to CO-1, and another one was sent to CO-2.

- **CO-1:**

The proposal package included a cover letter and a four-page Letter of Intent. The cover letter was dated February 14, 20XX. The cover letter stated that the proposed project title was "Applying Strategies from Mental Health [Assertive Community Treatment Teams and Unifying Task Forces] to Reducing The Use and Harm of Substance Abuse in An Indigenous Community." The amount request for this project was \$.

In the Letter of Intent, it provided the description for the proposal project. At the last sentence of the Letter of Intent, it stated, "ORG is a tax-exempt organization under 501(c)(3).

- **CO-2:**

The cover letter to CO-2 dated February 23, 20XX stated that the proposed project title was "Improving Coordination of Mental Health Services in A New, Closed State System without Managed Care." The amount is requested for this project was \$. In addition, it provided that ORG had applied for non-profit status under Section 501(c)(3) of the IRS Code."

The Form 1023 was signed by RA-1 on May 21, 20XX and post marked on May 30, 20XX.

The determination letter was issued on October 2, 20XX, granting exemption as a private non-operating foundation under §501(c)(3) retroactively to March 8 20XX.

Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATIONS OF ITEMS</b>		Schedule number or exhibit
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Form 990:

IRS internal systems revealed that the Foundation filed Forms 990 for the years 20XX, 20XX, 20XX, and 20XX. No returns were filed for the 20XX through 20XX tax years.

The Form 990 filed by ORG for the year 20XX revealed the following:

Purpose:

The primary purpose of the organization was stated on the Forms 990 as, "ASSISTANCE TO INDIVIDUALS AND FAMILIES WITH EMOTIONAL PROBLEMS."

Income:

The Form 990 filed by the organization showed contributions received as follows:

Contributions	20XX
RA-1 – Noncash property donation	
RA-2 – Noncash property donation	
Membership Dues	
Total	

The schedule B of the Form 990 also provided the description of noncash property given as follows:

Description of noncash property given	20XX
26 Gold Coins	
18 Gold Jewelry	
Scuba & Mountaineering Equipment	
Total	

Part II, Schedule M of the Form 990 indicated that the organization sold noncash contributions through CO-2.

Expenditures:

Line 2, Part IX of Form 990 provided that the organization had \$\$ in grants and other assistance to individuals in the U.S.

Line 4a, Part III of Form 990 provided the description of the \$\$ expenses, "ORG HELD 243 SESSIONS OF SERVICE DURING 20XX. IT HAS SERVED 49 CLIENTS, IN BOTH INSIDE THE OFFICE AND IN THE COMMUNITY."

Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATIONS OF ITEMS</b>		Schedule number or exhibit
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Part III, Schedule I of Form 990 provided an explanation of \$\$ expenditures: \$\$ of cash grants and \$\$ of non-cash assistance to provide counseling and motto services to 49 indigent individuals.

## CO-2

The CO-2 account of the organization is registered under the name RA-1. In the store description, it stated, "Please add me to your list of favorite sellers and visit again. I offer jewelry, clothing, scuba equipment, and items given to me for sale. All (%) of my CO-2 income is donated to charity, to supply medications and personal items for indigent individuals residing in the Country. RA-1".

## Information Document Request (IDR)

### IDR # 1

The initial IDR was mailed on June 1, 20XX. The responses to the IDR came in multiple installments; however, were incomplete. Donation information was requested and not provided. Books and financial records also were requested but not provided, except the bank statements from CO-4.

The copies of the Foundation's bank statements were received on September 22, 20XX. RA-1, the president of the Foundation, made hand written notes on the statements indicating that payments for the motto sessions performed. The summary of the payment information is shown below:

<u>Date</u>	<u>Payment Amt</u>	<u>Sessions</u>
01/31	\$	56
04/28	\$	6
06/03	\$	16
06/06	\$	16
06/13	\$	2
06/13	\$	2
06/17	\$	44
06/26	\$	16
07/02	\$	32
07/07	\$	66
07/08	\$	6
07/07	\$	30
07/31	\$	4
08/06	\$	4
09/05	\$	2
	<u>\$</u>	<u>301</u>

The CO-4 statements revealed that a total of \$\$ was deposited to the Foundation's account. Of the \$\$ deposited, a total of \$\$ was identified as deposits from CO-2 (CO-2). There was no indication of the

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source of the income for the other \$\$ in deposits made to the account. The deposit dates and deposit amounts of the \$\$ are shown in the table below.

<u>Date</u>	<u>Deposit</u>
01/04/XX	
06/02/XX	
06/16/XX	
07/03/XX	
07/31/XX	
12/03/XX	

Information regarding the 243 sessions of service was requested in question #13. The dates of the 243 motto sessions performed by the Foundation in 20XX were provided. The summary of the 243<sup>1</sup> sessions is shown below:

<u>Month</u>	<u>RA-1</u>	<u>RA-2</u>
January	32	10
February	12	7
March	14	7
April	7	5
May		
June	2	
July	6	4
August	33	36
September	15	18
October	20	4
November	6	2
December	4	
Total	151	93

Question #14 asked, "The Form 990 for the year 20XX filed by your organization indicated that the organization received \$\$ of noncash donations. Among the \$\$ of noncash donations, \$\$ was donated by RA-1, and \$\$ was donated by RA-2. Did your organization receive the Forms 8283 filed by RA-1 and RA-2? If yes, please provide copies of the Forms 8283. If not, please explain how the fair market values of the donated goods were determined."

<sup>1</sup> The total number of sessions provided on the chart provided by ORG should be 244.



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The response to question #14 was, "The monies from CO-5 derived exclusively from items that they donated for sale by ORG on CO-2, through an CO-2 account that has been vetted by CO-2 as legitimately linked to a 501(3)(3) not-for-profit, and whose revenues were deposited directly into the business checking account of ORG by CO-2's CO-2 clearinghouse. I have copies of every CO-2 listing and sale (the value of the CO-2 offerings was determined in each case as a fair market value based upon similar CO-2 listings). ..." The response did not say who made the fair market valuation. Partial CO-2 sale information was provided in the subsequent response to IRS. No Form 8283 was provided.

Question #17 asked, "Please provide a written statement to explain the criteria used in determining who will be eligible to receive the service by your organization." The response to question #17 was, "MISSION STATEMENT of ORG is: To provide timely, individualized, culturally-competent, effective, and community-based motto interventions to person in urgent need of same in the Island (USA) and who can either not afford same or whose community status prevents them from seeking same from the public mental health clinic due to fear about lack of confidentiality or whose paranoia or other motto symptom prevents self-awareness sufficient to impel treatment: including but not limited to, medication, assessment, counseling, referral, and reports." This does not answer the question about the specific criteria used for eligibility.

#### IDR #2:

On October 25, 20XX, IDR #2 was issued to the Foundation via certified mail. The certified mail receipt indicated that the IDR was received by the Foundation on November 8, 20XX.

Receiving no response, IDR #2 was reissued to the Foundation on December 7, 20XX with response due date of January 9, 20XX.

A certified letter sent by RA-1 was received on December 14, 20XX. The letter was dated December 5, 20XX. In the letter, RA-1 stated, "I have just today received from you the packet regarding ORG dated October 24, 20XX and the response to which was supposed to be back to you within 30 days. The only question of yours that I understand and feel able to answer is 1., to which my reply is that, based upon the advice that we got before initiating ORG, we utilized the bank statements as a ledger and balance sheet. As far as the other questions, I am mailing the entire packet to the accountant who has handled all of the returns for both ORG and for RA-2 and me (and has possession of the one year's returns that were prepared by another CPA). Please feel free to dialogue with any staff of CO-6 about these returns. ..." No Form 2848, Power of Attorney and Declaration of Representative, for ORG was received nor was a telephone number provided or call received from CO-6.

A letter dated February 10, 20XX, from RA-1 was received. She stated in the letter, "I am still in State, but my staff has informed me they they just received from you a letter asking for additional information about ORG for TY 20XX. The ORG Treasurer (Treasurer) ORG Vice President (RA-2), ORG Secretary (Secretary) and Account (CO-6) are working on providing to you the answers that you seek, promptly and comprehensively. However, they do will not have complete access to my correspondence with you until I return to Country on March 12, 20XX. ..."

A letter dated May 26, 20XX, from RA-1 was received. She stated in the letter, "After receiving on the initial letter from you indicating that the IRS, TE Exemption Organizations was going to be examining the transactions of ORG in 20XX, I immediately notified – and sent your request packed to – my account, CO-6, who assured me that his office would handle the matter and keep me apprised. Most

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recently, RA-3 has informed me that his office has no records of ORG from 20XX – he has been the sole accountant for ORG since the inception of ORG – and that he had no data to provide to you.” Then, she responded to questions in IDR #2.

The following are questions asked in IDR #2 and responses provided by RA-1:

Question 7a asked, “Please provide the contemporaneous documents to demonstrate the sources of the \$\$ deposits made to the organization’s CO-3 account. “ The response to question #7a was “The sources of the \$\$ given to ORG was money gifts for the value of the in-kind motto sessions provided by RA-2 and RA-1 to indigent patients in the Commonwealth.”

Question 8a asked, “In the Form 990, you indicated that the organization held 243 sessions during the year 20XX. If the organization held 243 sessions in 20XX, please explain why the organization paid a total of \$\$ for 301 sessions.” The response to question 8a was “I believe that several of the 243 sessions were held in 20XX under the aegis of ORG while several of those 243 sessions were atypical – sometimes involving a meeting early in the day and then a follow up meeting later in the day – and so the number of 243 sessions represents an accurate clinical summary while the number of 301 sessions represents an accurate literal summary.”

Question 8c asked, “Please provide a list to identify who was the recipient of each payment made by the organization in the year 20XX.” The response to question 8c was “The payments made by ORG in 20XX were made to pharmacies and other local stores to provide free motto medication and personal supplies to the indigent patients seen by RA-1 and RA-2.”

Question 8i asked, “Did the organization prepare the Forms W-2 or Forms 1099-Misc to report a total of \$\$ payments made to RA-1 and RA-2 for their motto services? If no, please explain in writing why the organization did not prepare the Forms W-2 or Forms 1099-Misc to report the income received by RA-1 and RA-2.” The response to question 8i was “There were no 1099 Forms prepared by ORG to RA-2 or RA-1 for our services since RA-2 and RA-1 donated their services and received no compensation or remuneration for their services.”

Question 8j and 8k asked how much of the total of \$\$ was RA-1 and RA-2 each received. The responses to question 8j and 8k were RA-1 and RA-2 did not receive any of the \$\$ and no income from ORG was reported on the returns of RA-1 and RA-2.

No supporting documents such as bills, receipts, or invoices were provided by the Foundation to explain the \$\$ expenses.

#### Fax

RA-1 sent a fax with her handwritten note on July 12, 20XX, stated, “ORG was not issued a credit card ever and was only issued an ATM card a few months ago. So, upon accountant advice, we used the ORG business checking account to repay purchase of food & medicine w/non-ORG credit cards.”

#### Summoned Information

The Foundation provided copies of bank statements from CO-4 for the year 20XX. Other information such as bank deposits, cancelled checks, and fund transfers information were asked but not provided.

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A summons was issued to CO-4 for requesting the bank records of the Foundation excluding the bank statements.

The bank statements and summoned information provided by CO-4 are summarized below:

#### Revenue

Direct Deposit - CO-2	\$
Deposit - RA-1	\$
Deposit - Government of Country - RA-1	\$
Deposit - Government of Country - RA-2	\$
Deposit - Government of Country - RA-1	\$
Deposit - Government of Country - RA-2	\$
Deposit - ORG	\$
Deposit - RA-4 - ORG	\$
	<hr/>
	\$
	\$

#### Expenses

Checks Issued To	
CO-7 <sup>2</sup>	\$
CO-8 - for RA-1	\$
RA-5 - CO-9	\$
STATE Treasury	\$
ORG Services	\$

#### Funds Transferred To

Funds Transfer CO-10Elec RA-2	\$
Funds Transfer CO-11 Epay - RA-1	\$
Funds Transfer CO-12 Plus CC # <sup>3</sup>	\$
Funds Transfer CO-13 - RA-1	\$
Funds Transfer CO-14 Epay - RA-1	\$

<sup>2</sup> The credit card # written on the check was #. The fax dated July 30, 20XX sent by RA-1 listed several credit cards that belonged to RA-1, RA-2, and ORG. The credit card # # was not in the list. However, the list provided that the card # # belonged to ORG.

<sup>3</sup> The Fax dated July 30, 20XX sent by RA-1 provided that the name on the CO-12 Plus CC # was RA-1.

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Funds Transfer CO-15-DA ORG

\$

Other Charges

\$

\$

### Related Entity

The Schedule R of the 20XX Form 990 of the Foundation indicated that the Foundation is related to ORG. RA-1 is the member of ORG and the president of the Foundation.

ORG is a for-profit entity. US Probation Office's website listed ORG Services as one of the drug testing/treatment providers.

Line 1m, Part V, Schedule R, of the 20XX Form 990 also indicated that the Foundation and ORG were sharing of facilities, equipment, mailing lists, or other assets.

### **LAW:**

Internal Revenue Code ("IRC") Section 501(c)(3) provides exemption from federal income tax to "Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office."

Section 1.501(c)(3)-1(c)(1) of the Regulations states that an organization will be regarded as "operated exclusively" for one or more purposes only if it engages primarily in activities which accomplish one or more such exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Treasury Regulation Section 1.501(c)(3)-1(d)(ii) holds that "An organization is not organized or operated exclusively for one or more of the purposes specified in subdivision (i) of this subparagraph unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests."

Internal Revenue Section 6001 provides that every person liable for any tax imposed by the Code, or for the collection thereof, shall keep adequate records as the Secretary of the Treasury or his delegate may from time to time prescribe.

Internal Revenue Section 6033(a)(1) provides, except as provided in IRC Section 6033(a)(2), every organization exempt from tax under section 501(a) shall file an annual return, stating specifically the items

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of gross income, receipts and disbursements, and such other information for the purposes of carrying out the internal revenue laws as the Secretary may by forms or regulations prescribe, and keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe.

Treasury Regulation Section 1.6001-1(a) in conjunction with Treasury Regulation Section 1.6001-1(c) provides that every organization exempt from tax under IRC Section 501(a) and subject to the tax imposed by IRC Section 511 on its unrelated business income must keep such permanent books or accounts or records, including inventories, as are sufficient to establish the amount of gross income, deduction, credits, or other matters required to be shown by such person in any return of such tax. Such organization shall also keep such books and records as are required to substantiate the information required by IRC Section 6033.

Treasury Regulation Section 1.6001-1(e) states that the books or records required by this section shall be kept at all times available for inspection by authorized internal revenue officers or employees, and shall be retained so long as the contents thereof may become material in the administration of any internal revenue law.

## GOVERNMENT'S POSITION

The organization has failed to meet the operational test described in Treasury Regulation Section 1.501(c)(3)-1(c)(1). In order to claim tax-exempt status a corporation must keep records sufficient to show specifically its items of gross income, receipts and disbursements and show that it is entitled to the exemption, as specified under Internal Revenue Code Section 6001 and Treasury Regulation Section 1.6001-1(c).

The purpose of ORG is to carry out research in Motto for the benefit of the STATE and its community. The research was never performed since the grants did not come through. The Form 990 indicated that the Foundation provided services for 49 patients with emotional problems during the year 20XX. Motto treatments were performed.

The bank statements provided by the Foundation show that the Foundation had the total expenses of \$\$ in the year 20XX.

The total expenses of \$\$ can be summarized in three areas:

- \$\$ of motto sessions fees
- \$\$ of medication expenses
- \$ of bank service charge

A question in the IDR #2 asked who the recipients of the \$\$ were. This was the amount of the motto sessions held; but this could not be verified because of patient confidentiality. The response indicated that the payments of \$\$ were made to pharmacies and other local stores to provide free motto medication and personal supplies to the indigent patients seen by RA-1 and RA-2.

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The bank statements and summoned information provide the transaction descriptions of the 15 payments mentioned above. The transaction descriptions are summarized and shown below:

Date	Check #	Transaction Description	Payment Amount
01/31/X X		CO-7	\$
04/28/X X		ORG Services	\$
06/03/X X		Funds Transfer CO-14 Epay RA-1	\$
06/06/X X		Funds Transfer CO-12 Plus CC #	\$
06/13/X X		Funds Transfer CO-14 Epay RA-1	\$
06/13/X X		Funds Transfer CO-11 Epay - RA-1	\$
06/17/X X		Funds Transfer CO-14 Epay RA-1	\$
06/26/X X		Funds Transfer CO-15-DA ORG	\$
07/02/X X		Funds Transfer CO-14 Epay - RA-1	\$
07/07/X X		Funds Transfer CO-10Elec RA-2	\$
07/XX/X X		Funds Transfer CO-12 Plus CC #	\$
07/XX/X X		Funds Transfer CO-13 - RA-1	\$
07/31/X X		Funds Transfer CO-12 Plus CC #	\$
08/06/X X		Funds Transfer CO-12 Plus CC #	\$
09/05/X X		CO-8 - for RA-1	\$
			<hr/> \$
			<hr/> \$

A note written by RA-1 on the fax dated July 12, 20XX indicated that the Foundation had no credit card, and the officers of the Foundation used the funds in its checking account to repay purchase of food and medicine made by other credit cards.

The supporting documents for the expenses were requested in IDR #1. No supporting documents such as bills, invoices, or receipts were provided to prove any of the expenses were furthering its exempt purpose.

The Foundation could not provide supporting documents to show the \$\$ of motto session fees and \$\$ of medicine were for furthering its exempt purpose. The total of the motto session fees and medicine was \$, which was % of the total expenditures for the year 20XX.

Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATIONS OF ITEMS</b>		Schedule number or exhibit
Name of taxpayer <b>ORG</b>	Tax Identification Number <b>EIN</b>	Year/Period ended <b>20XX12</b>	

The Foundation could not provide adequate records to determine the full nature of its operations under Section 6001 of Internal Revenue Code to be recognized as exempt from federal income tax under Internal Revenue Code Section 501(c)(3). Based on the information presented, it has been determined that the Foundation's exemption under IRC Section 501(c)(3) should be revoked effective January 1, 20XX.

### TAXPAYER'S POSITION

The organization agreed to the revocation proposed by IRS. The effective date of the revocation is January 1, 20XX. The organization signed the Form 6018 *Consent to Proposed Action – Section 7428* on September 26, 20XX.

### CONCLUSION:

The Foundation could not produce the original source documents for income or disbursements to meet the documentation requirement under Internal Revenue Code Section 6001 and Treasury Regulation Section 1.6001-1(e).

During the audit, RA-1 stated that the funding for the Foundation did not materialized; therefore, the Foundation has not been able to function as was originally intended. Since motto care and medicine for indigents is a charitable purpose, the activity is deemed to have been charitable, although no records could be provided to demonstrate it. Since ORG has failed to provide records and failed to meet the record keeping requirements under IRC § 6001 to be recognized as exempt from federal income tax under IRC § 501(c)(3) and has agreed to revocation, accordingly, the organization's exempt status is revoked effective January 1, 20XX.